

FILE



OFFICE OF THE COMPTROLLER  
CITY OF ST. LOUIS



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Comptroller

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January 30, 2007

Eddie Hasan, Executive Director  
MOKAN CCAC  
4144 Lindell Blvd., #316  
St. Louis, MO 63108

RE: MOKAN Fiscal Monitoring Review (Project #2007-CDA9)

Dear Mr. Hasan:

Enclosed is a report of our fiscal monitoring review of MOKAN (Contracts #04-90-61, #05-90-61 and #06-90-61) for the period January 1, 2004 through September 30, 2006. The scope of a fiscal monitoring review is substantially less than an audit, and as such, we do not express an opinion on the financial operations of MOKAN. Our fieldwork was completed on January 9, 2007.

This review was made under authorization contained in Section 2, Article XV of the Charter, City of St. Louis, as revised and has been conducted in accordance with the International Standards for Professional Practice of Internal Auditing and through an agreement with the Community Development Administration (CDA) to provide fiscal monitoring to grant sub-recipients. If you have any questions, please contact Charles Schroeder at 589-6089.

Sincerely,

Sedrick D. Blake, CPA  
Audit/Fiscal Executive

Enclosure

cc: Honorable Darlene Green, Comptroller  
Elaine Harris Spearman, Legal Advisor and Chief Staffing Officer  
Jill Claybour, Acting Executive Director, Community Development Administration  
Lorna Alexander, Fiscal Coordinator, Community Development Administration



# CITY OF ST. LOUIS

**COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)  
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)**

**MOKAN CCAC  
CONTRACTS #04-90-61, #05-90-61 AND #06-90-61**

**FISCAL MONITORING REVIEW**

**JANUARY 1, 2004 THROUGH SEPTEMBER 30, 2006**

**PROJECT #2007-CDA9**

**DATE ISSUED: JANUARY 30, 2007**

**Prepared by:  
The Internal Audit Section**



## OFFICE OF THE COMPTROLLER

**HONORABLE DARLENE GREEN, COMPTROLLER**

**CITY OF ST. LOUIS  
COMMUNITY DEVELOPMENT ADMINISTRATION (CDA)  
COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG)  
MOKAN CCAC**

**CONTRACTS: #04-90-61, #05-90-61 AND #06-90-61  
FISCAL MONITORING REVIEW  
JANUARY 1, 2004 THROUGH SEPTEMBER 30, 2006**

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**FISCAL MONITORING REVIEW**  
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**INTRODUCTION**

**Background**

**Contract Name:** MOKAN

**Contract Numbers:** 04-90-61  
05-90-61  
06-90-61

**Contract Periods:** January 1, 2004 through December 31, 2004  
January 1, 2005 through December 31, 2005  
January 1, 2006 through December 31, 2006

**Contract Amount:** \$135,000 (04-90-61)  
\$135,000 (05-90-61)  
\$114,750 (06-90-61)

Contracts #04-90-61, #05-90-61 and #06-90-61 (Documents 48047, 53120 and 52777) provided Community Development Block Grant (CDBG) funds to MOKAN to provide technical assistance to better equip contractors to compete independently and successfully in the construction industry. The grants also provided practical hands-on assistance and serve as a catalyst for promoting working relationships between minority, women owned, small contractors, the private and public sectors.

**Purpose**

The purpose of our review was to determine MOKAN's compliance with federal, state and local CDBG requirements for the periods January 1, 2004 through September 30, 2006. We have made recommendations for improvements.

**Scope and Methodology**

We made inquiries regarding MOKAN's internal controls relating to the grant administered by the Community Development Administration (CDA), tested evidence supporting the reports the Agency submitted to CDA and performed other procedures considered necessary. Our fieldwork was completed on January 9, 2007.

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**CONCLUSION AND SUMMARY OF CURRENT OBSERVATIONS**

**Conclusion**

We found evidence to suggest MOKAN did not fully comply with federal, state and local CDBG requirements.

**Status of Prior Observations**

The Agency's previous Fiscal Monitoring Report dated May 10, 2006 noted four observations which have been listed below:

1. The Agency did not provide access to financial data. **(Resolved.)**
2. IRS Form 990 for 2004 may be considered filed late. **(Repeated. See Current Observation #3.)**
3. The Agency did not have adequate approval of time reports. **(Repeated. See Current Observation #4.)**
4. The Board of Director's Meeting minutes were unsigned. **(Resolved.)**

**A-133 Status**

According to letters received from the Agency, MOKAN was not required to have an A-133 Status report for calendar years 2004 or 2005 because it did not expend \$500,000 or more in federal funds for either year.

**Summary of Current Observations**

We made recommendations for the following observations with the associated questioned costs, which if implemented, could assist MOKAN in fully complying with federal, state and local CDBG requirements.

1. Failure to file and make deposits for IRS Form 941 (\$81,082.96)
2. Failure to file IRS Form 990 in a timely manner (\$7,979.53)
3. Failure to maintain support documentation (\$1,366.77)
4. Failure to maintain adequate insurance
5. Failure to approve time reports

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**DETAILED OBSERVATIONS, RECOMMENDATIONS  
AND MANAGEMENT'S RESPONSES**

**1. Failure to File and Make Deposits for IRS Form 941 (\$81,082.96)**

Employers are required to file Employer's Quarterly Federal Tax Returns (IRS Form 941) with the IRS to report payroll taxes withheld and paid. The taxes withheld are required to be paid by the IRS scheduled dates and the quarterly returns must be filed by the 15<sup>th</sup> day following the end of the quarter.

As of November 6, 2006, the Agency had not fully paid its payroll taxes of \$81,082.96 for the calendar years 2002 through 2005. A schedule of unpaid taxes has been provided below:

Quarter Ending/Tax Year	Balance Due**
March, 2002	\$ 3,887.85
Jun, 2002	14,567.90
September, 2003	9,239.09
December, 2002	16,381.46
March, 2003	17,540.19
Jun, 2003	9,104.82
March, 2004	509.53
December, 2005	9,852.12
Subtotal	\$81,082.96
Tax Year 2004*	7,979.53
<b>TOTAL</b>	<b>\$89,062.49</b>

\* Represents the balance due for IRS Form 990 for calendar year 2004; see Observation #2.

\*\* Includes interest and penalties

**Recommendation**

We recommend the Agency pay all applicable taxes, penalties and interest. We further recommend the Agency ensure future filings and payments to the IRS are made timely.

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**DETAILED OBSERVATIONS, RECOMMENDATIONS  
AND MANAGEMENT'S RESPONSES**

**1. Continued...**

**Management's Response**

*We have contracted with Payroll 1 to process our payroll and tax liabilities, which are automatically deducted from our checking account. If the liabilities are not processed due to Payroll 1 error, Payroll 1 will incur all related fees. Additionally, we have a tax consultant that is working as a liaison between Mokan, Payroll 1 and the IRS. Alma Scarborough, Scarborough's Tax Affair, 703 N 13<sup>th</sup> Street, St. Louis, MO 63103, 314-621-1402.*

**2. Failure to File IRS Form 990 in a Timely Manner**

Federal guidelines require a nonprofit organization with annual gross receipts of \$25,000 or more to file IRS Form 990. The Form 990 is an information return required by organizations exempt from income taxes. The return is due by the 15<sup>th</sup> of the fifth month following the end of the agency's fiscal year. Organizations can also receive up to two 90-day extensions of time to file. Thus, the Form 990 for a nonprofit whose fiscal year ended on December 31, 2004 might not be filed until November 15, 2005.

This Form should also be available for public inspection upon request. The Agency could be fined \$20 per day up to maximum of \$10,000 per year and could have its tax-exempt status revoked if the Form is not filed and is not available for public inspection.

MOKAN's IRS Form 990 for the year ended December 31, 2004 was not filed until June 5, 2006. The IRS has assessed a daily delinquency penalty totaling \$7,979.53 as of November 6, 2006. The Form for 2005 has not been filed. Once the Form for 2005 is filed, additional penalties may be assessed.

These Forms were not available for public inspection at the time of our review. We were informed that this was due to the Agency's changing its fiscal manager and accounting position. This caused some confusion within the organization.

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**DETAILED OBSERVATIONS, RECOMMENDATIONS  
AND MANAGEMENT'S RESPONSES**

**2. Continued...**

**Recommendation**

We recommend the Agency pay all applicable taxes, penalties and interest. We further recommend the Agency ensure future timely filing of its IRS Form 990 and make the most current IRS Form 990 available for public inspection.

**Management's Response**

*We have a tax consultant that will process 990 reports. Alma Scarborough, Scarborough's Tax Affair, 703 N 13<sup>th</sup> Street, St. Louis, MO 63103, 314-621-1402.*

**3. Failure to Maintain Support Documentation (\$1,366.77)**

There is a presumption that agencies funded are to provide continuing services and will have the financial wherewithal to accomplish the same. Under the agreement with Community Development Administration, the Agency is required to maintain and make available for review all documentation relating to the contract for three years.

The Agency was unable to furnish cancelled checks for two non-payroll expenditures, totaling \$1,366.77 as follows:

Rent (November 2004).....	\$1,138.00
Office Supplies (May 2005).....	<u>\$ 228.77</u>
	<u>\$1,366.77</u>

According to records obtained from Comptroller's Office/Federal Grants Section, the Agency was reimbursed for these expenditures. The Agency failed to maintain records essential for our audit and it resulted in questioned costs of \$1,366.77.

**Recommendation**

We recommend the Agency reimburse CDA for the questioned cost by remitting a \$1,366.77 check to: Comptroller's Office/Federal Grants Section, 1114 Market St. #608, St. Louis, MO 63101. Include your account and center number in the memo section or provide the cancelled checks as proof of payments.



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**DETAILED OBSERVATIONS, RECOMMENDATIONS  
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**3. Continued...**

**Management's Response**

*At the time of audit, Mokan was in the middle of a personnel change that made it difficult to locate certain items requested. Per Ms. Reed, copies of two checks are needed. November 2004 rent payment and May 2005 copier payment. Attached is a copy of bank statement and November 2004 rent check in the amount of \$1,138. Fiscal Manager has contacted its bank for copy of US Bancorp check #1037 used to pay May 2005 copier bill for \$228.77. A copy of the May 2005 copier bill is attached.*

**Auditor's Comment**

The questioned cost of \$228.77 remains unresolved until the Comptroller's Office/Federal Grants Section has received the copy of the cancelled check supporting this payment. We will follow up on the status of this finding after thirty days from the date of this report.

**4. Failure to Maintain Adequate Insurance**

Sound business practices include provisions that minimize risk and ensure that an Agency is protected against theft, embezzlement, automobile accidents, workmen's compensation and general liability losses.

Additionally, the Agency did not have general liability insurance coverage. The failure to maintain adequate and current insurance coverage increases the financial risk to the Agency, the potential loss of federal funding and denial of future reimbursements.

**Recommendation**

We recommend the Agency obtain and maintain adequate insurance and provide proof of coverage such as a certificate of insurance and cancelled check to Internal Audit.

**Management's Response**

*Mokan is in the process of securing General Liability Insurance. Copy of Certificate will be forward to you upon receipt.*

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**5. Failure to Approve Time Reports**

CDA regulations require employee time reported show the actual number of hours an employee spends on CDBG activities. The time reports should be signed by the employee and his or her immediate supervisor.

The time reports of the Executive Director reflected 100% of his time having been spent on CDBG activities while the budgeted percentage was only 75%. The time reports give the appearance the Executive Director was reimbursed for 100% of his time when in fact it was only 75% of his actual salary.

In addition, employees' time reports were not signed by the managers. The Executive Director's time report was not signed/approved by a member of the Board of Directors.

An Agency's failure to maintain adequate time reports can encourage fraud, theft and embezzlement of federal funds.

**Recommendation**

We recommend the Agency revise time reports to identify correctly time spent on CDBG and non-CDBG activities. We also recommend the Agency ensure that the appropriate level of management approves all employee time reports.

**Management's Response**

*Mokan has revised its Attendance Report form to show CDGB hours worked. There is also a Bi-weekly Time Report form completed that is used to separate the amount of CDBG hours charged. Mokan also uses an Interim Request Payroll Breakdown form that insures CDA is billed only for 75% of Executive Director's time.*

*Mokan Fiscal Manager will insure that all timesheets have appropriate signatures on file.*